



DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
FINANCIAL MANAGEMENT AND COMPTROLLER
109 ARMY PENTAGON
WASHINGTON DC 20310-0109



REPLY TO
ATTENTION OF

MAR 31 2003

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: FY 2003 Annual Statement of Assurance on Management Controls

This memorandum provides guidance for the preparation of your FY 2003 Statement of Assurance (separate guidance will be issued for MACOMs).

The Federal Managers' Financial Integrity Act requires that the Secretary of Defense submit an annual Statement of Assurance to the President and Congress. Annual statements from the heads of DOD Components support this statement. The Secretary of the Army's statement is supported, in turn, by annual statements from the MACOM Commanders and HQDA Principals. These annual statements are personal certifications as to the effectiveness of management controls.

Assertions that management controls provide reasonable assurance continue to receive attention from the Comptroller General, the Office of Management and Budget and the Under Secretary of Defense (Comptroller). Your statement should reflect accurately the status of management controls in your organization. Where appropriate, you should consider qualifying your statement by indicating those areas where you do not have reasonable assurance. In addition, there is increased emphasis on the prompt correction of material weaknesses. We will review progress in correcting Army material weaknesses at our May 2003 mid-year meeting of the Senior Level Steering Group.

Your annual statement should include a cover memorandum, signed by you or your principal deputy, providing your assessment as to whether there is reasonable assurance that your management controls are in place and operating effectively. The balance of your annual statement provides support for your assertion and information on the material weaknesses you report. Detailed guidance on the preparation of your annual statement is enclosed.

The U.S. Army Audit Agency conducts an annual review of the Army's management control process. They will focus on feeder statements that support the Secretary's annual statement. Their intent is to assess the usefulness of these statements; the rigor and discipline of the process by which they are developed; and the degree to which they represent an accurate assessment of management controls and a full disclosure of material weaknesses. As part of this review, they also will make an assessment of your efforts to implement the management control process.

There are several significant changes in this year's guidance:

- First, due to recent realignments, certain functions / operations will be covered differently:



- Management controls in garrison functions – under the Installation Management Activity and its regions – will be addressed in the statement from the Assistant Chief of Staff for Installation Management.

- Management controls in the Regional Contracting Offices – under the Army Contracting Agency – will be addressed in the statement from the Assistant Secretary of the Army (Acquisition, Logistics and Technology).

- Management controls in the U.S. Army Network Enterprise Technology Command will be addressed in the statement from the Chief Information Officer.

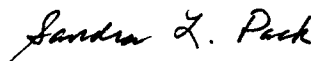
Any MACOM material weaknesses reported in these areas from a “customer” perspective will be forwarded to the appropriate HQDA agency for evaluation.

- Second, we have revised our guidance to streamline your statement. This guidance now requires information on efforts by Internal Review personnel in support of your management control process.

- Finally, the schedule for the annual statement process has been advanced. The Secretary of the Army’s FY 2003 Statement of Assurance must be submitted to DOD by October 1, 2003. To meet this date, we must have your statement by September 12, 2003. Due to the limited time available to develop and staff the Secretary’s statement, we cannot grant extensions.

Your statements should be addressed to the Assistant Secretary of the Army (Financial Management and Comptroller) and delivered to Room 3A322 in the Pentagon or mailed ATTN: SAFM-FOI, 109 Army Pentagon, Washington, DC 20310-0109. We will accept email submissions (i.e., PDF or Word files) but we must have the signed cover memorandum in a PDF file. We will accept advance copies by fax at (703) 614-3890 (DSN 224-3890), but we must receive a signed copy by mail or email.

Please confirm receipt of this memorandum. Our contacts for the annual statement process are Mr. William Harris, (703) 693-2770 or harrisw@hqda.army.mil, and Ms. Debra Rinderknecht, (703) 693-2761 or debra.rinderknecht@hqda.army.mil.



Sandra L. Pack
Assistant Secretary of the Army
(Financial Management and Comptroller)

Enclosure

DISTRIBUTION:

COMMANDER:

U.S. ARMY CORPS OF ENGINEERS

U.S. ARMY MEDICAL COMMAND

HQDA PRINCIPALS:

ADMINISTRATIVE ASSISTANT TO THE SECRETARY OF THE ARMY

ASSISTANT SECRETARY OF THE ARMY (ACQUISITION, LOGISTICS, AND TECHNOLOGY)

ASSISTANT SECRETARY OF THE ARMY (MANPOWER AND RESERVE AFFAIRS)

THE INSPECTOR GENERAL

THE AUDITOR GENERAL

DEPUTY CHIEF OF STAFF, G-1

DEPUTY CHIEF OF STAFF, G-2

DEPUTY CHIEF OF STAFF, G-3

DEPUTY CHIEF OF STAFF, G-4

CHIEF INFORMATION OFFICER

DEPUTY CHIEF OF STAFF, G-8

ASSISTANT CHIEF OF STAFF FOR INSTALLATION MANAGEMENT

CHIEF OF CHAPLAINS

THE JUDGE ADVOCATE GENERAL

CHIEF, ARMY RESERVE

CHIEF, NATIONAL GUARD BUREAU

DIRECTOR OF MANAGEMENT

CF:

ASSISTANT SECRETARY OF THE ARMY (INSTALLATIONS, AND ENVIRONMENT)

ASSISTANT SECRETARY OF THE ARMY (CIVIL WORKS)

DIRECTOR OF THE ARMY STAFF

DEPUTY GENERAL COUNSEL (ETHICS AND FISCAL)

U.S. ARMY AUDIT AGENCY, ATTN: SAAG-FFG

DEFENSE FINANCE AND ACCOUNTING SERVICE

GUIDELINES FOR PREPARATION OF THE FY 2003 ANNUAL STATEMENT OF ASSURANCE

SCHEDULE

The schedule for development and preparation of the Secretary of the Army's FY 2003 Statement of Assurance is as follows:

- | | |
|----------------|---|
| August 29: | Annual statements from MACOMs and separate-reporting FOAs due to OASA (FM&C) |
| September 12: | Annual statements from HQDA Principals due to OASA (FM&C) |
| September 19: | Draft Army statement delivered to HQDA Staff elements for coordination |
| September 26: | HQDA Staff comments on draft Army statement due at OASA (FM&C) |
| October 1: | Preliminary input provided to OUSD (Comptroller) (i.e., tentative list of Army material weaknesses) |
| October (TBD): | Senior Level Steering Group convened to review proposed Army statement |
| October 15: | Final signed Army statement delivered to USD (Comptroller) for the Secretary of Defense |

STRUCTURE OF THE STATEMENT

The Statement of Assurance will consist of the following sections:

- The cover memorandum
- TAB A, How the Assessment was Conducted
- TAB B, Material Weaknesses
 - TAB B-1, List of Material Weaknesses
 - TAB B-2, Uncorrected Material Weaknesses
 - TAB B-3, Corrected Material Weaknesses

ENCLOSURE

COVER MEMORANDUM

Signature. The head of the reporting organization or their principal deputy must sign the cover memorandum. This memorandum provides their assessment as to whether they have reasonable assurance that the organization's management controls are in place and operating effectively.

Types of Statements. This statement of assurance must take one of three forms:

- An unqualified statement of assurance ("I have reasonable assurance that..."). Each unqualified statement must have a firm basis for that position, and this basis must be described clearly in Tab A.
- A qualified statement of assurance ("I have reasonable assurance that, except for....."). The material weaknesses in management controls that preclude an unqualified statement should be cited in the cover memorandum.
- A statement of no assurance ("I do not have reasonable assurance that").

TAB A, HOW THE ASSESSMENT WAS CONDUCTED

Purpose. The purpose of the statement is to provide an objective assessment of whether management controls provide reasonable assurance and to report any material weaknesses in those management controls.

Reasonable Assurance. Reasonable assurance refers to a satisfactory level of management confidence that management controls are in place and operating as intended. Reasonable assurance is a management judgment that recognizes there are acceptable levels of risk that cannot be avoided because the cost of absolute control would exceed the benefits derived.

Qualified Statements. The Army and DOD have submitted qualified statements since FY 1993. A qualified statement is nothing more than an objective recognition that management controls need improvement. Reporting organizations should give serious consideration to submitting qualified statements where appropriate.

Content of TAB A. TAB A describes how your determination of reasonable assurance was reached and provides support for that assessment. This description may cite existing processes, to include management control evaluations, audits or inspections, functional management reviews and other mechanisms for command oversight. TAB A should also provide specific information in the following areas:

- Leadership Emphasis. This section summarizes leadership efforts in support of your management control process, to include leadership correspondence on the importance of effective management controls and senior leadership bodies (e.g., councils or committees) used to advise on management control issues.

- Training. This section summarizes management control training conducted. Indicate the type of training (e.g., provided by USDA, HQDA management control staff or in-house staff) and the total number receiving each type of training.
- Execution. This section summarizes your most significant accomplishments in assessing and improving management controls and your management control process. Be selective and ensure that these accomplishments are related directly to management controls. We want to include one or two of your accomplishments in the Army statement, so please list your best accomplishments first.
- Internal Review Support. This section summarizes efforts by Internal Review personnel in support of your management control process. Indicate the total work-years of Internal Review effort in support of your process and describe these efforts (e.g., reviewing execution of the process, assessing the annual statement, validating the correction of material weaknesses, and where applicable, overall administration of the process). HQDA organizations with no Internal Review staff should indicate "N/A."

US Army Audit Agency (USAAA). In its review of the management control process, USAAA will assess efforts to implement the management control process and the feeder statements that support the Secretary's annual statement. Their review of feeder statements will assess their usefulness, the rigor and discipline of the process by which they are developed, and the degree to which they represent an accurate assessment of management controls and a full disclosure of material weaknesses.

TAB B, MATERIAL WEAKNESSES

Material Weakness Criteria. Identifying and correcting deficiencies in management controls is an ongoing responsibility of commanders and managers at all levels. Whether a problem merits reporting as a material weakness is a management judgment. There are two essential criteria for a material weakness:

- It involves a deficiency in management controls (i.e., they are not in place; they are in place but are not being used; or, they are in place and used, but are inadequate).
- It warrants the attention of the next level of command, because that next level must take action or because it must be aware of the problem.

It is usually clear whether a problem involves a deficiency in management controls or whether the next level of command must take corrective action. Whether the next level of command should be made aware of a weakness is a more subjective judgement. The following factors should be considered in making this judgment:

- Actual or potential loss of resources (e.g., magnitude, sensitivity, frequency of loss).
- Current or probable Congressional / media interest (adverse publicity).

- Unreliable information causing unsound management decisions.
- Diminished credibility or reputation of Army management.
- Violation of statutory or regulatory requirements.
- Impact on information security.
- Impaired fulfillment of essential mission or provision of Government services.

Sources for Material Weaknesses. Many sources can be used to identify potential material weaknesses, to include: audit or inspection findings, criminal investigation results, management control evaluations, functional management review processes, and management's general knowledge of operational problems. Audit and inspection reports often will recommend reporting specific problems as material weaknesses. These recommendations should be given careful consideration, but the determination to report a material weakness is ultimately a management judgment.

DOD Systemic Material Weaknesses. DOD identifies Systemic Material Weaknesses that affect a significant number of DOD Components and have the potential to impact adversely on DOD's overall operations. For your reference, the eight Systemic Material Weaknesses reported by DOD in FY 2002 are:

- Financial Management Systems and Processes
- Environmental Liability
- Munitions and Explosives
- Contracting for Services
- Government Card Program Management
- Information Assurance
- Personnel Security Investigations Program
- Management of Real Property (Facilities)

Complete descriptions of these eight Systemic Material Weaknesses are contained in the DOD Performance and Accountability Report for FY 2002. This report can be viewed at: <http://www.dod.mil/comptroller/par/index.html> (click on "Part I - Management Discussion and Analysis" and scroll down to page I-16).

Problems Identified by USAAA. USAAA has noted shortcomings in material weaknesses, to include cryptic or inadequate descriptions and problems addressed in a piecemeal (not a systemic) approach. Each HQDA reporting organization should consider material weaknesses from its subordinate elements and from MACOM feeder statements as input for the possible identification and development of broader Army-wide material weaknesses.

Content of TAB B. TAB B consists of the following sections:

- TAB B-1, List of Material Weaknesses. This section should provide separate listings for uncorrected and corrected material weaknesses. Each listing should indicate the title of the weakness and the fiscal year it was identified, beginning with the most recent weaknesses and working back.
- TAB B-2, Uncorrected Material Weaknesses. This section includes separate descriptions of each uncorrected material weakness, with weaknesses in the same sequence as the listing in TAB B-1.
- TAB B-3, Corrected Material Weaknesses. This section includes separate descriptions of each corrected material weakness, with weaknesses in the same sequence as the listing in TAB B-1.

Format and Instructions. The material weakness format and instructions are attached.

MATERIAL WEAKNESS FORMAT

Local ID #: _____

Title and Description of Material Weakness:

Functional Category:

Pace of Corrective Action:

Year Identified:

Original Target Date:

Target Date in Last Year's Report:

Current Target Date:

Reason for Change in Date(s):

Component/Appropriation:

Validation Process:

Results Indicators:

Source(s) Identifying Weakness:

Major Milestones in Corrective Action:

A. Completed Milestones:

Date:

Milestone:

B. Planned Milestones (Fiscal Year 2004):

Date:

Milestone:

C. Planned Milestones (Beyond Fiscal Year 2004):

Date:

Milestone:

OSD or HQDA Action Required:

Point of Contact:

ATTACHMENT

INSTRUCTIONS FOR MATERIAL WEAKNESSES FORMAT

Material weaknesses should not exceed three pages in length.

Local ID #: Indicate your local identification number for the material weakness.

Title and Description of Material Weakness. The title should be short and concise. The description should be written in non-technical terms that would permit a member of the general public to understand the management control problem, its cause and its adverse impact.

Functional Category. Cite one of the broad DoD functional categories shown below:

Research, Development, Test, and Evaluation
Manufacturing, Maintenance, and Repair
Communications / Intelligence / Security
Personnel and/or Organization Management
Comptroller and/or Resource Management
Property Management
Support Services
Other (Primarily Transportation)

Procurement
Major Systems Acquisition
Contract Administration
Force Readiness
Supply Operations
Information Technology
Security Assistance

If more than one category is involved, cite the primary category first. This will assist us in routing your material weakness to the appropriate HQDA office (if it involves a functional area other than your own).

Pace of Corrective Action:

Year Identified: The FY the weakness first was reported.

Original Target Date: The FY for correction when first reported.

Target Date in Last Year's Report: The FY for correction in last year's report. If this is a new weakness, enter "N/A."

Current Target Date: The current FY for correction. If this is a new weakness, enter "N/A."

Reason for Change in Date(s): If the Current Target Date is later than the Target Date in Last Year's Report, explain what caused this change. If these two dates are the same or if both show N/A, enter "N/A."

Component/Appropriation: The Component is "Army." Identify the appropriation(s) associated with correction of this material weakness.

For any Army-level material weakness, identify by appropriation and fiscal year any amounts in the funded program/budget for correction of this material weakness, as follows:

<u>Appropriation</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>	<u>Cost-to-Complete</u>	<u>Total</u>
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Show amounts in thousands of dollars (\$K). Funds prior to FY 2003 do not need to be included. If no funds are shown, provide an explanation.

Validation Process: The effectiveness of corrective actions must be validated before a material weakness is closed (this is important especially when corrective actions focus on policy changes). Indicate the method that will be used to validate that corrective actions have resolved the material weakness and the date this will occur. For any Army-level material weakness, validation must be accomplished by the USAAA.

Results Indicator: Describe the quantitative and/or qualitative measure that will show the material weakness has been corrected. This section should answer the question "How will you know when the material weakness has been corrected?"

Source(s) Identifying Weakness: List the primary source(s) that identified the material weakness (e.g., management control evaluations, external audit or inspection reports, local inspector general or internal review findings). For audit/inspection reports, cite the report title, report number and date.

Major Milestones in Corrective Action: Indicate the major milestones – the primary corrective actions – taken or planned to correct the material weakness. DOD policy requires that corrective action be validated before a material weakness is reported as closed and that this validation process be listed as the final milestone.

For any Army-level material weaknesses, show milestone dates only for March or September (i.e., 3/02 or 9/02). These are based on the "as of" dates for the annual statement (end of September) and mid-year (end of March). Using these semi-annual milestone dates will reduce the need to explain minor slips in milestones.

A. Completed Milestones:

Date:

Milestone:

B. Planned Milestones (Fiscal Year 2004):

Date:

Milestone:

C. Planned Milestones (Beyond Fiscal Year 2004):

Date:

Milestone:

OSD or HQDA Action Required: If correction of this material weakness requires action by OSD or by another HQDA staff agency, indicate the office and the action you believe it should take (include a Point of Contact with phone number or email address, if possible). If you are reporting the material weakness for information only, indicate "N/A."

Point of Contact: The name, office symbol, and telephone number of the individual who can respond to inquiries about this material weakness.